

The impact of catastrophic events of the black swan type on the mergers and acquisitions market illustrated by the banking sector

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Abstract

The purpose of the publication is to identify the distinctive features of the behaviour of the merger and acquisition market in the banking sector during two catastrophic events that took place between 2020 and 2023. The study includes a literature review, an analysis of previous studies on crises and their impact on the merger and acquisition market, specifically in the banking sector (desk research), as well as an analysis of selected case studies. The article poses the following research question: “Does the merger and acquisition market in the banking sector exhibit specific characteristics during and after catastrophic events?” In order to answer this question, literature, existing research and statistical data on transactions from 2020–2022 are reviewed. Additionally, two case studies from the European and US markets are analysed. The research provides an affirmative response to the research question, and the conclusions confirming the specificity of the merger and acquisition market in the banking sector are presented in the article’s summary. The author also recommends further in-depth research on the specifics of the market for corporate control during and after catastrophic events going beyond qualitative analysis.

Keywords: corporate control market, mergers and acquisitions, catastrophic events, banking sector, pandemic

JEL: G23, G28, M21, L2

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1. Introduction

The years 2020–2023 were a period of intense impact from two catastrophic black swan events on the global economy as well as on the mergers and acquisitions market.

The outset of the COVID-19 pandemic at the end of 2019 in China and its subsequent spread in 2020 beyond that country had a decisive impact on the development of many countries' economies. Although the virus had a cyclical nature (with increases in infections in the spring and autumn), and governments of different countries simultaneously imposed various types of restrictions and measures on their citizens, it has had a varied impact on different industries. Some sectors of the economy thrived during this period, while others were pushed to bankruptcy. In March 2023, three years had passed since the World Health Organization first confirmed the outbreak of the pandemic. That same year, the General Director of the World Health Organization confirmed that the end of the pandemic could soon be announced. As of 1 July 2023, the state of epidemic threat in Poland was lifted by a regulation from the Minister of Health. However, it can be assumed that 2022 was the year when strict restrictions were lifted in the European Union and the United States.

The second catastrophic event that took place during the mentioned period was the unprecedented military invasion of Ukraine by Russia in February 2022, which is ongoing at the time of writing this article. The military actions, besides their catastrophic impact on the Ukrainian economy, have had and still have a significant economic impact on many countries. This is due to the strong economic interconnections between contemporary economies.

Focusing on the mergers and acquisitions market,¹ research is being conducted to observe the specifics of this market during and immediately after catastrophic events. Such research has already been conducted after one of these events (the pandemic period) in the high-tech sector, specifically the IT market. On the basis of a case study, the author demonstrated that some companies may focus on acquiring breakthrough innovations and that the financial investor activity significantly increased in the IT sector during that time (Melnarowicz 2022). However, there is a lack of understanding regarding the logic or specific dynamics of the control market for enterprises in the banking sector during the mentioned period. Therefore, it seems helpful to examine this area, which forms an evident research gap also identified in the analysis of the existing literature.

The analysis of statistical data was based on annual data, assuming that 2022 was the last year of analysis. Nevertheless, case studies were based on transactions from 2022–2023, which will reveal certain market behaviours during the catastrophic events (the war in Ukraine, the pandemic) and immediately after (the pandemic).

2. Merger and acquisition transactions in times of crises – a literature review

Mergers and acquisitions during periods of economic turbulence and crises constitute an important area of research in the fields of management, economics and finance. Numerous scientific studies have been conducted so far, concerning the analysis of the effects of mergers and acquisitions in the

¹ The term “mergers and acquisitions market” is used interchangeably in this publication with the term “corporate control market” and the abbreviation M&A.

context of economic recessions or financial crises. It is worth examining what has been researched and published in this area so far.

Agrawal, Jaffe, and Mandelker (1992) analysed the impact of mergers and acquisitions on the financial performance of the acquiring firms. The authors examined whether mergers and acquisitions yield benefits in challenging economic conditions and whether their effects differ from those observed in normal periods.

The adaptive capacity of enterprises in the context of mergers and acquisitions in difficult economic conditions was also studied by Capron and Mitchell (2009). The authors analysed how gaps in corporate capabilities and internal social tensions influence the ability to select appropriate partners for mergers and acquisitions.

The influence of prior experiences related to merger and acquisition transactions on the outcomes and results of subsequent transactions during difficult times was also analysed by Halebian and Finkelstein (1999).

Lubatkin and Rogers (1989) analysed merger and acquisition strategies and their impact on shareholder value during times of crisis. The authors considered various factors such as the economic situation, risk, and degree of integration to assess the effectiveness of different merger and acquisition strategies.

Andrade, Mitchell, and Stafford (2001) examined the impact of mergers and acquisitions on the market value of firms during periods of economic crisis. The authors presented empirical research results indicating that mergers and acquisitions conducted in challenging economic conditions often lead to a decline in the stock value of participating firms.

Monographs have also been written presenting transactions in the control market during crises. Haspeslagh and Jemison (1991) focused on the management of mergers and acquisitions in difficult economic conditions. They analysed various cases of mergers and acquisitions during economic crises, presenting strategies that can contribute to value creation in such situations.

Capron and Pistre (2002a) focused on the role of mergers and acquisitions in the process of technological catch-up during times of crisis. The authors examined how companies can utilize mergers and acquisitions as a tool to acquire new technologies and strengthen their competitiveness in challenging economic conditions.

A publication also appeared presenting research on merger and acquisition transactions in the European chemical sector during economic crisis. Weber and Tarba (2014) analysed various factors influencing decisions regarding mergers and acquisitions in difficult economic conditions. They assessed their effectiveness and impact on the financial performance of companies in the chemical sector.

Seth, Song, and Pettit (2000) focused on foreign acquisitions by American companies during crisis periods. The authors analysed different motives and driving factors behind these transactions, as well as their impact on the value and financial performance of both acquirers and target companies.

An interesting monograph was also presented by Hitt, Harrison, and Ireland (2001). The aim of this work was to create a guide on value creation for stakeholders in the processes of mergers and acquisitions. As a result of their research, the authors described the management of mergers and acquisitions in various contexts, including challenging economic conditions. They also presented strategies that can contribute to the success of transactions in the market for corporate control.

Andrade, Mitchell and Stafford (2001) analysed mergers and acquisitions in different periods, including economic crisis. The researchers focused on the effects of these transactions on stock value and the financial performance of firms.

Capron and Pistre (2002b) conducted interesting research related to the market for corporate control. The study was based on the analysis of data on international acquisitions and mergers outcomes in the research and development investment sector. The authors examine various factors, such as the technological capabilities of the acquirer, synergy and complementarity between the acquirer and the acquired company, risks and costs associated with investments in R&D, as well as crisis-related factors. Researchers have examined the factors determining acquirers' decisions regarding investments in R&D resources after taking over science-based firms in international acquisitions.

Seth and Mahapatra (2011) analysed transactions in the market for corporate control during the global financial crisis that took place in 2007–2008. They examined valuation effects and evidence of transaction overvaluation using data on mergers and acquisitions from different countries and sectors of the economy. The researchers analysed changes in stock prices before and after the announcement of a merger or acquisition and compared them to establish whether overvaluation occurred. The results indicated evidence of transaction overvaluation during the global financial crisis. The publication emphasized the argument that the increase in stock prices of companies before merger and acquisition transactions was higher than what would be expected based on the actual value of these firms. Therefore, the authors suggested that some merger and acquisition transactions during the financial crisis may have been inefficient and provided lower benefits than initially assumed.

Kostić (2013) described merger and acquisition transactions as a tool for business internationalization in the context of the contemporary crisis. In his publication, he presented current issues related to the merger and acquisition process as a specificity of contemporary corporate restructuring during crises. Based on this, he analysed the intensity of transactions and their trend in the market for corporate control under the conditions of the contemporary economic and financial crisis. He also described the specificity of due diligence analysis and the merger and acquisition evaluation process during a financial crisis.

Ar sini, Straccamore, and Zaccaria (2023), based on the patent activity of approximately a thousand companies, developed a method for predicting future acquisitions, assuming that companies are more likely to be involved in those related to technology. The researchers compared various forecasting methods, including machine learning and neural network algorithms. The study took into account the behaviour of technological companies during crises by conducting a qualitative case study on one of the firms. In the end, the researchers recommended that companies and decision-makers could utilize this approach to identify firms that are most likely to carry out transactions or explore possible innovative strategies.

A comprehensive literature review on mergers and acquisitions in the banking sector was conducted by Chiamonte et al. (2023). The researchers focused their bibliometric analysis on 174 publications (involving 354 authors) selected from over 4500 scientific articles. The selection of publications for further analysis was based on their quality and direct relevance to the market control of companies in the financial sector. The review of the analysed literature revealed that there are currently no studies in the world that comprehensively examine the specifics or behaviour of the mergers and acquisitions market during catastrophic events. However, if such an event was mentioned, it typically referred to a financial crisis (2007–2008), the period of the COVID pandemic (2020–2021), or the efficiency and

profitability of the banking industry. The available studies also addressed the determinants of success or failure, the dynamics of the processes, and regulations affecting transactions.

An interesting study on merger and acquisition transactions during the financial crisis of 2007–2008 was conducted by the consulting firm Bain & Company (2023). They examined over 2800 companies that had or had not participated in transactions during the study period. The success or failure of these companies was measured by their return on investment for shareholders from 2007 to 2017. The analysis revealed that this indicator was significantly more favourable for shareholders of entities that engaged in transactions during the crisis.

Further analysis of available scientific articles in the field of banking also reveals studies related to the efficiency and profitability of this sector. For example, Chen (2004) focuses on the analysis of the impact of horizontal mergers on efficiency and profitability in the banking industry in Taiwan during economic crises. The author presents an empirical study that analyses the effects of bank mergers on indicators of operational efficiency and the profitability of the banking sector. The study utilizes various measures of efficiency and profitability, such as operating costs, operating income, return on assets, and return on equity. The author conducted a comparative analysis between banks that had undergone mergers and those that had not participated in such processes to examine differences in efficiency and profitability. The results showed that bank mergers have a positive impact on bank profitability, contributing to income growth and improved profitability indicators even during crises (or shortly after them as a result of previously conducted transactions).

Beltratti and Paladino (2013) conducted a study on mergers and acquisitions in the European banking sector, with a particular focus on the financial crisis period (2007–2008). The researchers analysed whether merger and acquisition processes in this sector during crises differ from the developments in periods of economic stability. They conducted an empirical study using data from the European banking sector to examine whether significant differences emerge in transactional processes during crises. The study focused on various aspects of merger and acquisition processes, such as transaction size, types of transactions, motives, and financial outcomes. The authors also analysed how the financial crisis affected banks' ability to engage in transactions in the market for corporate control and identified factors that may have influenced the success of these transactions. The results of their research indicate significant differences between transactional processes during crises and those in the periods of stability. They observed that banks are more inclined to engage in smaller transactions and prefer defensive transactions.

Rao-Nicholson and Salaber (2016) analyse the role of mergers and acquisitions, focusing on the British banking sector during the financial crisis. The authors examine how various factors affect banks' ability to survive a crisis, including participation in M&A transactions. The article analyses the impact of the 2007–2008 financial crisis on cross-border mergers and acquisitions in the banking sector and highlights the role of banks from emerging markets in the post-crisis consolidation trend. Using transaction data and concentration from 2000 to 2013, the authors demonstrated that the financial crisis had had a significant impact on global mergers and acquisitions, especially regarding the direction of transactions. Banks from emerging markets established themselves as the main acquirers in the post-crisis period, targeting both neighbouring countries and developed economies in Europe. There was also an increase in the concentration of banks in the most affected developed markets, especially in the United States and the United Kingdom, while the concentration of banks decreased in emerging markets. The publication indicates that banks that engaged in mergers or acquisitions prior to the crisis had a better chance of survival than those that did not undertake such actions.

A study on acquisitions in the German banking sector during the financial crisis was also conducted by Hau and Thum (2009). The authors analyse the role of management in making merger and acquisition decisions and the impact of the crisis on transaction outcomes.

The impact of mergers and acquisitions on systemic risk during the recent financial crisis was also analysed by Berger, Caprio Jr., and Scalise (2008). The authors focused on empirical data analysis during the financial crisis to assess whether bank mergers and acquisitions contribute to increasing or decreasing systemic risk. They examined various risk indicators such as long-term profitability, deposit stability, and banks' ability to withstand financial shocks. The results suggest that bank mergers and acquisitions can lead to an increase in systemic risk. The results suggest that larger financial institutions formed as a result of mergers and acquisitions during crises may be more vulnerable to financial difficulties and pose a greater threat to the stability of the financial system.

By examining available research and literature, it can be observed that there are many publications describing the mergers and acquisitions market during various economic crises, including the case of the banking sector. They mainly focus on analysing strategies, outcomes, and factors influencing the success or failure of transactions during crisis periods. However, the literature displays a notable research gap in terms of the lack of analyses and studies regarding the specifics and behaviour of the mergers and acquisitions market in the banking sector during and after catastrophic events, as defined by Mitroff and Alpaslan's crisis circle (2003, p. 122), such as natural disasters (e.g. pandemics) and abnormal events (war in Ukraine). It is worth emphasizing that, according to the author, the recent financial crisis or the so-called dot-com crisis of 2000 would not be understood as catastrophic events based on the above definition.

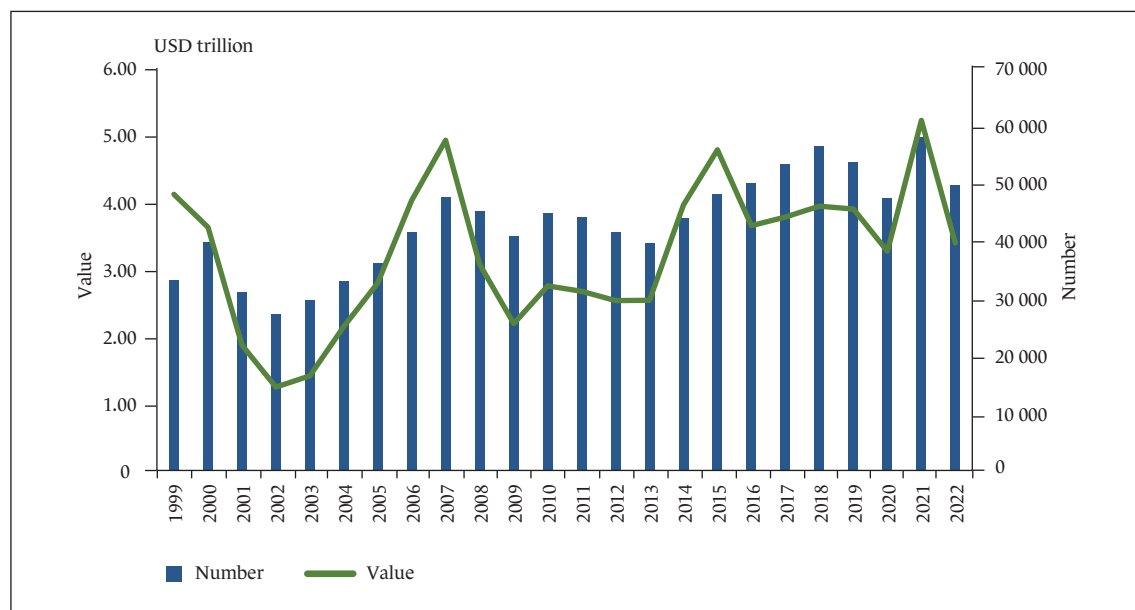
3. The mergers and acquisitions market in the years 2020–2022, with a focus on the banking sector

Mergers and acquisitions are one of the ways of development and restructuring of companies. This applies to the financial sector as well. It is worth noting that the market for corporate control shows a long-term upward trend. This trend applies to both the number and value of transactions. When global transactions over the past two decades are analysed (Figure 1), it turns out that the value of transactions in this market was USD 1.34 trillion (27,201 deals) in 2002, USD 2.53 trillion (41,480 deals) in 2012, and nearly USD 3.4 trillion (49,622 deals) in 2022.

Many publications have already described and examined the reaction of the mergers and acquisitions market to the fluctuations of the business cycle (Melnarowicz 2016). However, the analysis and studies have focused on the behaviour of the market for corporate control during economic slowdowns or recessions, rather than sudden events defined in the literature as catastrophic events. This has been extensively described by researchers (Melnarowicz 2022). Therefore, it is worth paying attention to the market's behaviour during the two recent catastrophic events, namely the previously mentioned COVID pandemic and Russia's armed attack on Ukraine. These events had a significant impact on the market for corporate control, which is evident in the number and value of transactions in 2020 and 2022 (Figure 1). In those years, there was a global decrease in both the number and value of mergers and acquisitions.

Figure 1

Value and number of M&A transactions worldwide from 1999 to 2022



Source: own elaboration based on www.statista.com data.

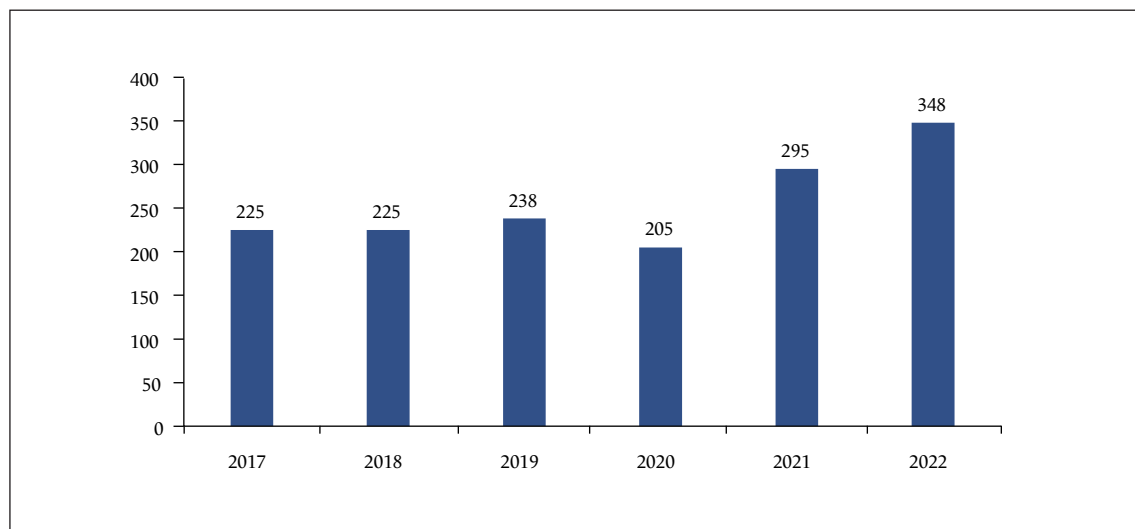
The report done by the consulting firm Bain & Company (2023) shows interesting M&A market behaviour. During the period of 2020–2022, there was a lower share of transactions conducted by large corporations (with only a slight increase occurring in 2021) compared to the pre-pandemic period. During this time, there was also an increase in transactions involving SPVs (special purpose vehicles) and venture capital / corporate venture capital companies. Additionally, in 2021, compared to 2020, there was an increase in the EV/EBITDA ratio for companies participating in transactions in the market for corporate control. The growth of this ratio indicates a higher price (increase in transaction value) of concluded agreements (Bain & Company 2023). In 2022, this ratio declined, reaching a median comparable to 2020. Grant Thornton (2023, p. 8) also indicates a similar market behaviour in Poland, where the median company valuation significantly decreased compared to 2021 (i.e., EV/EBITDA = 5.8 in 2022 compared to 10.4 in 2021 and 6.6 in 2020).

Meanwhile, an interesting situation can be observed in the Polish market. As indicated by a report prepared by the consulting firm Grant Thornton (2023), the number of transactions in Poland reached an all-time high in 2022 (Figure 2).

It is worth noting that the M&A market in Poland has consistently recorded over 200 completed transactions per year in recent years, unaffected even by the pandemic in 2020. Although there was a decline that year compared to previous periods (205 closed transactions), it seems to have been quite mild, considering the slowdown in the M&A market during the period of March–May caused by isolation and economic lockdown. Companies focused on their own issues rather than acquisition processes during that time. However, the year 2021 already brought a significant increase in transactions, and in 2022, the number of transactions reached 348.

Figure 2

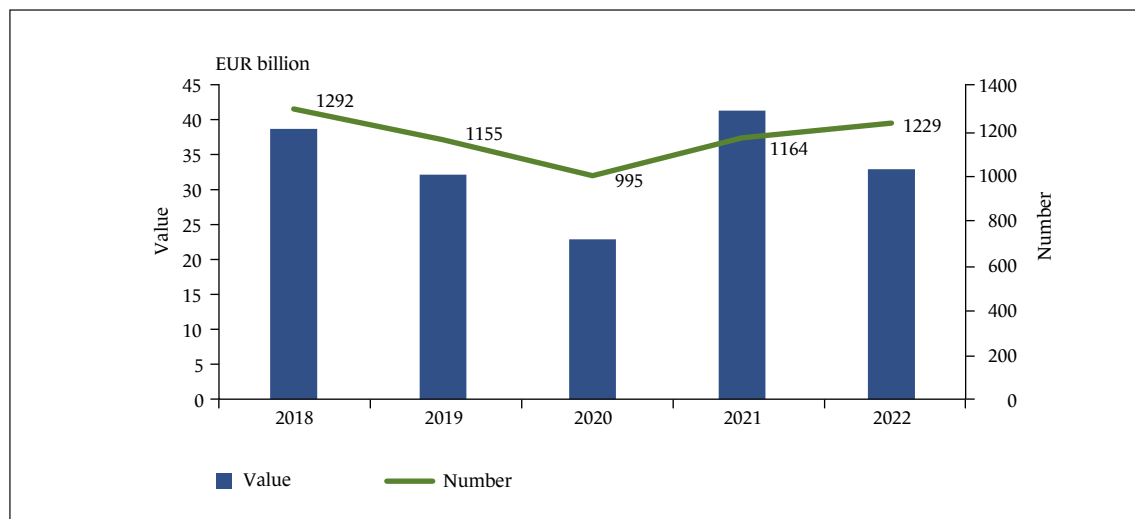
Number of M&A transactions in Poland from 2017–2022



Source: Grant Thornton (2023).

Figure 3

Number and value of M&A transactions in Emerging Europe



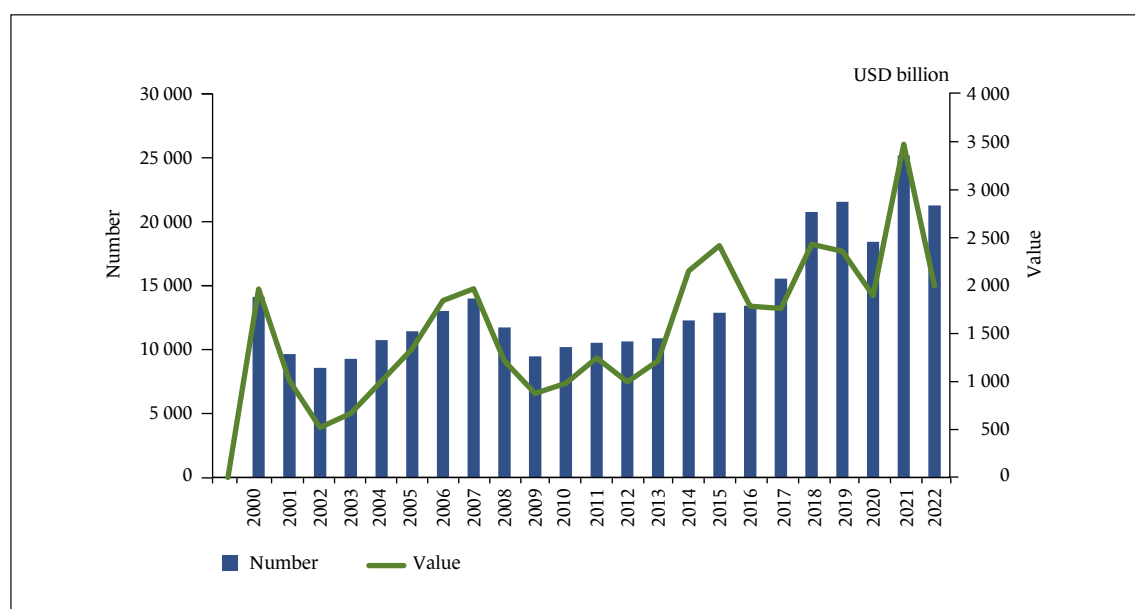
Source: CMS (2023), Emerging Europe, M&A Report 2022/23, January, p. 5.

Similarly, the Emerging Europe² M&A market behaved like the Polish control market, as shown in Figure 3.

In 2020, there was a significant decline in the number and value of transactions, while in 2021 there was a significant increase, with a slight correction in value in 2022, indicating a higher number of transactions by small and medium-sized enterprises (similarly to what was observed during this period in Poland). The year 2022, due to the outbreak of war in Ukraine, brought uncertainty and volatility. Nevertheless, overall the region still enjoyed considerable transactional activity (despite a slightly downward trend prior to 2021), except for Ukraine, where transactions decreased from USD 2.7 billion in 2021 to USD 0.3 billion in 2022 (Inventure 2023).

The mergers and acquisitions market in the USA in 2022, similarly to Europe, differed from the market in 2021 and in previous years. In 2021, merger and acquisition transactions set a record, which also contributed to a promising start in 2022. However, overall, in 2022, the transaction volume decreased by approximately 35% in the USA (from around 25,000 transactions to just over 21,000 transactions), affected significantly by a sharp decline in the second half of the year (Figure 4).

Figure 4
Number and value of M&A transactions in the USA



Source: own elaboration based on www.statista.com data.

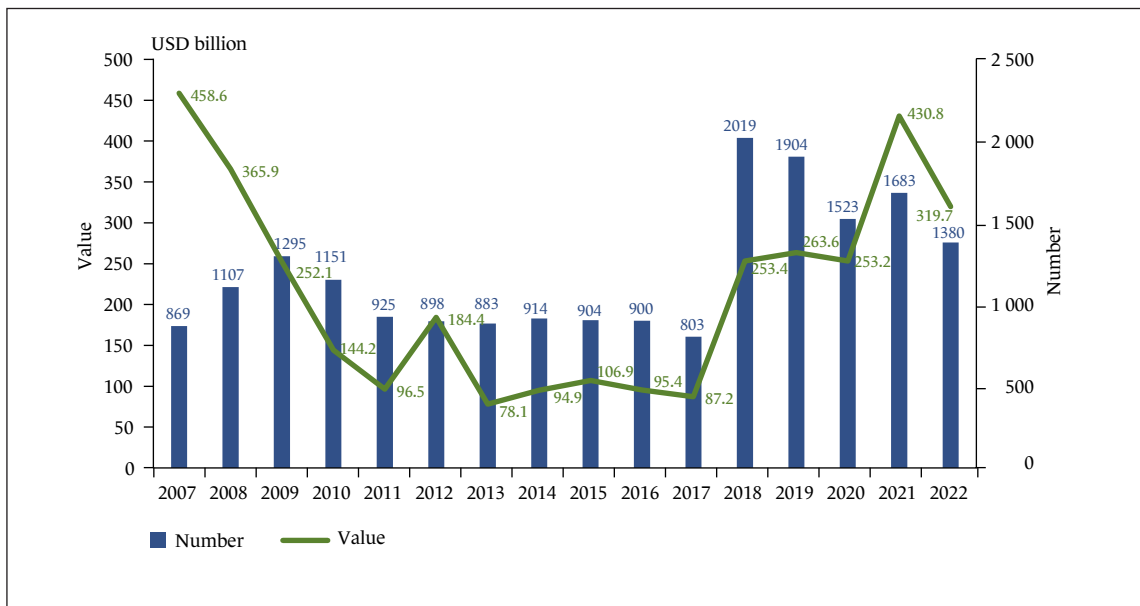
The combination of events such as stock market volatility, tightening monetary policy by the United States Federal Reserve through significant interest rate hikes, the conflict in Ukraine, and overall macroeconomic uncertainty (mainly related to the fuel and energy market situation due to the war in Ukraine) has had an impact on the mergers and acquisitions market.

² The so-called Emerging Europe includes the following countries: Poland, Hungary, Ukraine, the Czech Republic, Slovakia, Bulgaria, Romania, Croatia, Serbia, Bosnia and Herzegovina, Slovenia, and Albania.

It is also worth examining the behaviour of the mergers and acquisitions market in the analysed period within a specific sector, namely the banking sector. Globally, the number and value of mergers and acquisitions transactions in the banking sector (Figure 5) increased in 2021 compared to 2020³ by over 10% (from 1523 to 1683) and over 70% (from USD 253.2 billion to USD 430.8 billion) respectively. However, in 2022, compared to 2021, a decrease in transactions was recorded, namely almost 18% (from 1683 to 1380) and approximately 26% (from USD 430.8 billion to USD 319.7 billion), depending on the metric. The decline was in line with the broader mergers and acquisitions market, which concluded a record year of transactions in 2021 and quickly changed in the following year.

Figure 5

The value and number of M&A transactions in the global banking sector



Source: own elaboration based on www.imaa-insitute.org data.

The macroeconomic and geopolitical adversities were growing, and the financial services sector was affected by the war in Ukraine and the resulting sanctions, which led to increased uncertainty among contracting parties. Despite the challenging market for transactions, merger and acquisition activity in 2022 was at pre-pandemic levels. However, it is worth noting that the lower value of deals compared to their quantity was mainly due to a decline in the so-called megadeals, i.e. transactions exceeding USD 5 billion, which dropped by over 75% in 2022 compared to 2021, from 21 to 5⁴.

It is also worth emphasizing that the control market in the US and European banking sectors behaved similarly to the global market (Figure 6). The Polish market behaved quite uniquely (in 2021,

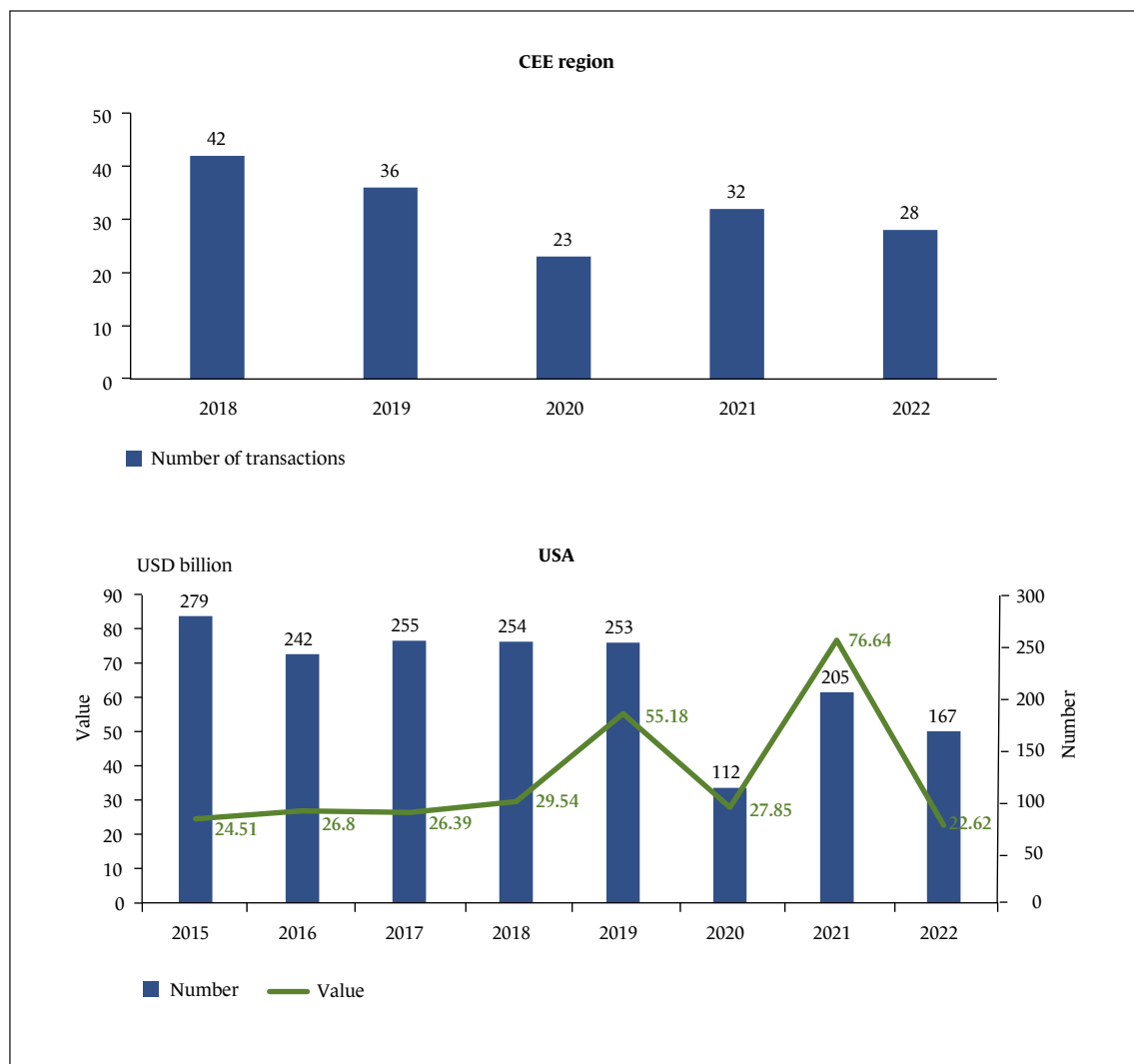
³ Institute for Mergers, Acquisitions & Alliances, M&A Statistics, <https://imaa-institute.org/mergers-and-acquisitions-statistics/>, accessed: 22.06.2023.

⁴ Institute for Mergers, Acquisitions & Alliances, M&A Statistics, <https://imaa-institute.org/mergers-and-acquisitions-statistics/>, accessed: 22.06.2023.

there were two bank acquisition transactions carried out during the restructuring of Podkarpacki Bank Spółdzielczy in Sanok and Idea Bank). Drawing meaningful conclusions here seems to be pointless (also due to the relatively small scale of this market).

Figure 6

The value and number of M&A transactions in various regions of the world in the banking sector



Source: own elaboration based on S&P Global Market Intelligence data.

Analysing statistical data, a certain specificity can be observed in the banking sector regarding the market control of enterprises. In 2021, after the pandemic years of 2020–2021, a more than twofold increase in transactions exceeding 5 billion USD was observed compared to the previous ten years, when this number had remained at around 25% (Bain & Company 2023). The market also reacted with a decline in transactions in 2022, similarly to the entire M&A market.

4. M&A market during and after catastrophic events based on the example of two transactions

In literature and research in the field of mergers and acquisitions, it is commonly hypothesized that mergers and acquisitions in the banking sector have an opportunistic nature. These transactions are motivated, among other things, by the desire to achieve a greater product scope or economies of scale (Saunders, Walter 1994), bring increased value for shareholders, or fulfil the ambitions of managing executives (Berger et al. 2020). In order to analyse the characteristics of the M&A market during and after catastrophic events, two transactions that took place between 2020 and 2023 (first half of 2023) were examined. The first case study involves a transaction in the European market, namely the acquisition of Credit Suisse AG by UBS AG, while the second case originates from the USA market.

4.1. The acquisition of Credit Suisse AG by UBS AG

Bank Credit Suisse AG, formerly known as Schweizerische Kreditanstalt, was founded by industrialist Alfred Escher in 1856 to build a railway network in the country. Over time, it gained global significance and grew to become a symbol of Swiss banking. It is one of the largest banks in Switzerland, serving individual, corporate and institutional clients. It has divisions specializing in corporate and institutional client services, and has over 150 offices in more than 50 countries. It is often recognized as one of the leading players in the banking industry, including being among the world's largest wealth management brokers. The bank is also one of the 30 globally important banks, the failure of which could cause a crisis in the global financial system. As of the end of 2022, the institution employed just over 50,000 people and managed assets worth CHF 1.3 trillion, compared to CHF 1.6 trillion the previous year.⁵ Over the years, due to management issues and associated multibillion-dollar losses, the bank experienced numerous changes in its leadership. The more serious problems for the institution began in March 2021 when the British factoring company Greensill declared bankruptcy. Credit Suisse, through several of its funds, was a significant investor there (investing around USD 10 billion). This initiated a series of scandals that tarnished Credit Suisse's reputation. In late February 2023, the Swiss market supervisory authority accused the bank of serious breaches of prudential duties in risk management in its dealings with Greensill. In the first half of 2021, a new CEO (Antonio Horta-Osorio) was hired to restructure the bank, but he was dismissed in January 2022 (due to a breach of COVID-19 rules, just eight months after being hired to restructure the bank). In July 2022, the new CEO and restructuring expert, Ulrich Koerner, presented a strategic review, but failed to convince investors. An unconfirmed rumour in the fall about an imminent collapse of the bank led to a customer exodus. Credit Suisse confirmed in February 2023 that in the fourth quarter of 2022, clients withdrew CHF 110 billion (approximately USD 119 billion), while the bank incurred its largest annual loss since the financial crisis, amounting to CHF 7.9 billion (its worst performance since the global financial crisis). The bank also indicated it would incur a loss in 2023. In December 2022, Credit Suisse managed to raise CHF 4 billion from investors. Credit Suisse shares lost over 75% of their value (since spring 2022) within twelve months.

⁵ Credit Suisse Group, <https://www.credit-suisse.com>.

In the second half of March 2023, after a strategic meeting of the bank's management and the Swiss central bank, a support program for Credit Suisse was announced, amounting to approximately CHF 50 billion. However, these funds proved to be insufficient. In the first quarter of 2023, the bank experienced a crisis of confidence, as customers were withdrawing their funds from the bank. On 16 March 2023 Credit Suisse took a loan of CHF 50 billion from the Swiss National Bank (SNB). As a result, the bank's shares fell by 40%. The decision by the SNB to transfer Credit Suisse assets to UBS occurred at the last minute, on 19 March. There was another piece of bad news for the bank that surfaced in March. On 9 March, the US securities regulator, the Securities and Exchange Commission (SEC), demanded additional explanations from the bank at the last minute, resulting in the postponement of the publication of the 2022 annual report. This led to a further decline in the bank's shares. Concurrently, problems were mounting for SVB Bank in the US, and there was a crisis of confidence in the banking sector. The announcement of a crisis relief package in the US also did little to calm the situation in Europe. On 13 March 2023, Credit Suisse's stock prices reached a new low at CHF 2.3, which was 67% less than the previous year.

The Swiss regulatory initiated talks and encouraged UBS to acquire Credit Suisse (no other bank was willing to engage in discussions). At the end of March 2023, by the decision of the Swiss authorities, UBS acquired Credit Suisse. There are significant differences between the two key Swiss banks. UBS is twice the size of Credit Suisse in terms of assets. According to available financial reports, UBS had assets of CHF 1.1 trillion at the end of 2022, while Credit Suisse had approximately CHF 500 billion. Furthermore, UBS had consistently outperformed Credit Suisse in previous years, as evidenced by profitability indicators such as ROA and ROE. Additionally, UBS ended 2022 with a significant profit of CHF 7.6 billion, while Credit Suisse incurred a loss of CHF 7.3 billion. As part of the rescue operation, UBS agreed to acquire its competitor by paying only CHF 3 billion, which was CHF 0.76 per share. This amount was significantly below the closing price of Credit Suisse shares on 17 March 2023, which was CHF 1.86. Until the completion of the acquisition, planned for the end of 2023, Credit Suisse would continue to operate normally and implement restructuring actions in collaboration with UBS. The entire acquisition operation received strong support from Swiss government and regulatory institutions. Based on new and swiftly adopted legislation, new liquidity instruments and government guarantees were introduced to ensure the success of the transaction.

This transaction was carried out as a commercial acquisition, as it did not meet the definition of mandatory restructuring (resolution). Although Credit Suisse liquidity situation appeared stable after receiving support from the Swiss central bank (as emphasized by the Swiss regulator), it seemed that in the longer term the lack of trust from investors and clients could pose significant threats to the institution.

The acquisition of a large bank by UBS, with a market value of approximately CHF 8 billion for a price of CHF 3 billion, along with the receipt of at least CHF 9 billion in guarantees from the Swiss government to cover potential losses from the acquisition, and additional liquidity assistance provided to both banks and amounting to CHF 100 billion (twice the amount previously announced for Credit Suisse), seems to constitute an opportunistic transaction. After the merger, UBS is expected to have a 30% share of the credit and deposit market in Switzerland and hold assets worth EUR 1.7 trillion. For comparison, the largest European banks have assets of around EUR 3 trillion (HSBC, BNP Paribas, with slightly less for Credit Agricole and Santander). The condition for public support, which led to the acquisition, was the complete write-down of the nominal value of Credit Suisse's capital bonds, known

as AT1 CoCos, from CHF 16 billion to zero (securities included in the bank's own funds). Although the exchange ratio of shares reduced the value of Credit Suisse shareholders' assets to CHF 3 billion, it did not eliminate it. Based on the aforementioned regulation, the merger of both institutions took place without the necessary approval from the shareholders of both Credit Suisse and UBS.

4.2. The acquisition of First Horizon Bank by Toronto-Dominion Bank

The next case of a transaction carried out during the examined period is the announced acquisition of First Horizon Corp. based in Memphis, USA, by the Canadian financial institution Toronto-Dominion Bank (TD Bank) in February 2022.

TD Bank is a Canadian commercial bank and one of the largest banks in the country. It was established on 1 February 1955, through the merger of two banks: the Bank of Toronto and The Dominion Bank, founded in 1855 and 1869, respectively. It is the financial institution with the highest assets in Canada, offering a wide range of banking services. Due to the fact that bank mergers in the highly concentrated Canadian banking sector were blocked by regulatory bodies, TD Bank sought further development in the USA. This institution entered the US consumer banking market by acquiring a 51% stake in BankNorth Group Inc. for USD 3.8 billion in 2004, which gave it nearly 400 branches in six north-eastern states. Three years later, TD Bank doubled its presence in the USA by acquiring Commerce Bancorp Inc. for USD 8.34 billion, adding nearly 460 locations.⁶ Currently, the bank has over 1200 branches in the USA (more branches than in its home country of Canada), primarily on the North American East Coast. It offers diverse financial products, including personal and savings accounts, mortgages, consumer loans, credit cards, investments, retirement services, corporate and institutional services, capital management, transaction services, and investment advice.

The bank being acquired by TD Bank was the American First Horizon Bank based in Memphis. It is one of the largest banks in the United States in terms of assets and is listed on the New York Stock Exchange. It belongs to a group of regional banks operating in the south-eastern United States. The bank has 412 branches, over 1.1 million individual customers, and businesses in 12 states (Dickson 2022). Similar to TD Bank, First Horizon Bank offers a wide range of banking products and services tailored to the needs of individual customers, small and medium-sized enterprises, and corporations.

The transaction encountered its first issues in February 2023 when TD Bank warned First Horizon that it might not obtain regulatory approval for the transactions before the extended deadline of 27 May 2023 (Ashworth 2023). Another obstacle arose in March 2023 after the collapse of Silicon Valley Bank caused a shockwave in the US banking system, in which TD Bank holds a significant stake. The stock price of First Horizon dropped over 35% between the announcement of the transaction (February 2022) and the end of March 2023. Shares of the Memphis-based bank further declined on 4 May 2023 (Hughes 2023). On that day, the transaction, valued at USD 13.4 billion when announced in February 2022, was cancelled. The banks lacked clarity on whether and when they would obtain the necessary regulatory approvals. As part of the agreement's resolution, TD Bank paid First Horizon USD 200 million, in addition to a USD 25 million break-up fee (Balu, Nishant 2023).

The benefits of the transaction had seemed to be mutual in February 2022, when official negotiations were initiated. First Horizon Bank experienced a rapid decline in its deposit base in 2022

⁶ TD Bank, <https://www.td.com/ca/en/about-td/corporate-profile/tds-history>.

compared to 2021, as stated in the published financial report (United States Securities and Exchange Commission 2023), signalling liquidity concerns for the bank. This decline was significantly more pronounced than the industry average in the United States. The acquisition of FH Bank by TD Bank, which is significantly larger and financially strong, would have mitigated the risk stemming from a substantial decrease in the deposit base. Additionally, TD Bank offered favourable acquisition terms to the shareholders of First Horizon Bank. The transaction would have also allowed TD Bank to expand its base of individual customers (moving beyond the East Coast of the USA, e.g., to Florida) as well as corporate clients. The agreement would have also helped TD Bank activate large capital reserves that the bank had accumulated after Canadian regulatory authorities restricted domestic financial institutions from buying back shares or increasing dividends in the early stages of the pandemic. TD Bank had approximately USD 21.6 billion in excess Tier 1⁷ capital by the end of the fourth quarter of 2022. The acquisition of First Horizon Bank by TD Bank would have helped the latter improve its ranking from the tenth to the sixth-largest commercial bank in the USA, based on assets. The acquisition of First Horizon Bank did not happen due to two primary reasons:

- the negative approach of the US regulator towards the transaction and the following crisis in the banking sector (bank failures);
- the scepticism of shareholders (if TD Bank had closed the transaction in March 2023, it would have paid 59% more than the value of FH Bank shares on the stock exchange at that time) caused by a significant decline in stock prices and the ongoing banking crisis at that time (collapse of several American banks).

5. Conclusions

After analysing the data and conducting case studies, it is now possible to answer the research question posed in the introduction about the existence of specific characteristics for the mergers and acquisitions market in the banking sector during and after catastrophic events. The answer is affirmative. Catastrophic events such as pandemics, natural disasters or wars, similarly to economic crises (as demonstrated in numerous studies and analyses), impacted the activity of mergers and acquisitions in the banking sector, just like in the overall global M&A market. During catastrophic events, banks focus on internal stability, adjusting strategies and minimizing risk, which leads to the limitations in the number and value of merger and acquisition transactions during this period, as shown in the statistical data. Although the year 2021 witnessed a growth in bank M&A transactions (as well as in the global corporate control market), a decline in transactions can already be observed in 2022 (during the outbreak of the war in Ukraine). In the examined period the corporate control market also displayed an unusual trait, consisting in a limited number of major transactions conducted in the banking sector.

The mergers and acquisitions market in the banking sector exhibits its specificity not only during but also after catastrophic events. It is highly susceptible to the effects of government and regulatory actions during this time, as well as sensitive to geopolitical developments. For example, the deficit of gas

⁷ Common Equity Tier 1 (CET1) capital is one of the capital ratios used to assess whether a bank has sufficient capital. In banking regulations, Tier 1 capital is defined as the highest quality capital, as it primarily includes common shares, retained earnings from previous years and other reserves. This ratio represents the relationship between CET1 capital and risk-weighted assets of the bank.

and fuel, resulting from the unexpected war in Ukraine and the imposition of sanctions on Russia, did not have a direct impact on the banking sector. However, it certainly had a direct effect on businesses, which subsequently influenced the banking sector with some delay. This impact was manifested as increased attention to risk management and reduced liberalization in providing financing to economic entities, as noted by the consulting firm KPMG (2022). This phenomenon was similar to the recent financial crisis in 2008, as documented in studies covering that period (Beltratti, Paladino 2013).

The analysis of two case studies also reveals certain peculiarities of the market that may emerge in the banking sector during and after catastrophic events. In the case of these transactions, the following conclusions can be drawn:

- During and after catastrophic events, governments and supervisory institutions take decisive actions that affect the mergers and acquisitions market (e.g., obstructing transactions, as in the case of TD Bank's attempt to acquire First Horizon Bank, despite the acquiring bank's strong financial situation).
- The bankruptcy of smaller banks has a significant impact on the market (e.g., American banks like SVB⁸ or Signature Bank). In the examples above this was related to the US government's policies during the pandemic which affected the situation of large banks (Credit Suisse or First Horizon Bank experienced sudden deposit outflows).
- Mergers and acquisitions transactions can be conducted under an exceptional procedure and fully controlled by the state (e.g., UBS's acquisition of Credit Suisse), which may entail unfavourable outcomes for shareholders or bondholders.

Therefore, the specific nature of the mergers and acquisitions market in the banking sector is amply proven. It is also worth mentioning that this industry is not among those sectors that proved resilient to the described crises.

It is worth noting too that although the analysis of case studies is in line with the research methodology adopted in management science and belongs to the realm of qualitative research, the results of such studies should not be generalized. Hence, there is a need to confirm the conclusions derived from them through quantitative research, which requires further and different analysis. The need for such an analysis is also clear from the presented literature review. Its added value would be to learn which industries and for what reasons are active during catastrophic events, which types of entities or industries are more or less resilient to such events, and what the specific nature of the mergers and acquisitions market during and after black swan events entails. These issues can be an extremely interesting area of enquiry.

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⁸ The bankruptcy of Silicon Valley Bank (SVB) in 2023 contributed to the largest banking collapse in the USA since the financial crisis in 2008 and raised concerns about the potential spread of problems to other banks. A significant portion of startups, companies, and investment funds from Silicon Valley had their money invested in SVB.

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Wpływ zdarzeń katastroficznych typu czarny łabędź na rynek fuzji i przejęć na przykładzie sektora bankowego

Streszczenie

Celem artykułu jest stwierdzenie, czy istnieje specyfika rynku fuzji i przejęć w sektorze bankowym w trakcie dwóch zdarzeń katastroficznych w latach 2020–2023. Niniejsza publikacja stanowi część badań nad specyfiką rynku kontroli przedsiębiorstw w trakcie zdarzeń typu czarny łabędź i po ich wystąpieniu. Autor kontynuuje badania w wybranych branżach wysokiej techniki, aby móc zidentyfikować specyfikę rynku fuzji i przejęć w trakcie zdarzeń katastroficznych. Dotychczas analizował branżę IT, w której stwierdził pewne specyficzne zachowania rynku. Ważnym przedstawicielem sektora wysokiej techniki jest także branża bankowa, w przypadku której po analizie dotychczasowych badań stwierdzono istnienie luki badawczej w tym obszarze.

Publikacja wnosi istotny wkład do dalszych badań nad specyfiką rynku fuzji i przejęć w sektorze wysokiej techniki w trakcie zdarzeń katastroficznych oraz po nich.

W artykule postawiono pytanie badawcze dotyczące istnienia specyfiki rynku fuzji i przejęć w sektorze bankowym w trakcie zdarzeń katastroficznych i po nich. W celu odpowiedzi na to pytanie użyto metodyk badań powszechnie stosowanych w naukach o zarządzaniu. Dokonano przeglądu dotychczasowych badań na temat kryzysów oraz dostępnych za pełne lata danych statystycznych dotyczących transakcji w okresie 2020–2022 (*desk research*). Przeanalizowano także wybrane dwa studia przypadków z rynku europejskiego oraz USA. Wyniki badania wskazały na istnienie specyfiki rynku kontroli przedsiębiorstw w sektorze bankowym w trakcie zdarzeń katastroficznych i po nich. Przeanalizowane dwa studia przypadków pozwoliły na sformułowanie następujących wniosków:

- w trakcie zdarzeń katastroficznych oraz po nich rządy i instytucje nadzorcze prowadzą intensywne działania wpływające na rynek fuzji i przejęć, co potwierdziły transakcje opisane w europejskim oraz amerykańskim studium przypadku;
- bankructwa mniejszych banków mają duży wpływ na rynek oraz sytuację dużych banków, co wiąże się z polityką rządu amerykańskiego podczas pandemii;
- transakcje fuzji i przejęć mogą mieć charakter wyjątkowy, w pełni kontrolowany przez państwo, co może się wiązać z rozwiązaniami niekorzystnymi dla akcjonariuszy lub obligatariuszy.

Dodatkowo w analizie danych statystycznych dotyczących transakcji ujawniła się pewna specyfika rynku kontroli przedsiębiorstw polegająca na ograniczonej liczbie dużych transakcji w sektorze bankowym. Rynek fuzji i przejęć w badanym okresie wykazywał silną podatność na działania rządów i regulatorów oraz na zawirowania geopolityczne.

Wyniki badań są ciekawe, jednak mają pewne ograniczenia wynikające w szczególności z badania jakościowego. Wprawdzie umożliwiają wyjaśnienie czy zilustrowanie zachodzących procesów, potwierdzenie lub odrzucenie stawianej tezy o istnieniu specyfiki rynku fuzji i przejęć (co nie jest możliwe wskutek przeprowadzenia badań ilościowych), trudno jednak na ich podstawie wyciągnąć wnioski uogólniające. Powodem zastosowania przez autora tej metodyki badań była jednak chęć zrozumienia relacji, a szerzej – zrozumienia złożonych, kompleksowych zjawisk oraz zachodzą-

cych procesów. Warto podkreślić, że wnioski wynikające z przeprowadzonego badania mogą mieć (i z dużym prawdopodobieństwem będą miały) duże znaczenie przy dokonywaniu analiz specyfiki rynku fuzji i przejęć w trakcie zdarzeń katastroficznych w sektorze wysokiej techniki.

Słowa kluczowe: rynek kontroli przedsiębiorstw, zdarzenia katastroficzne, fuzje i przejęcia, sektor bankowy